

MINUTES OF A MEETING OF THE NEW YORK CITY WATER BOARD

A meeting of the New York City Water Board (the “Board”) was held on November 18, 2011 at 8:30 a.m. at the New York City Department of City Planning, 22 Reade Street, Spector Hall, New York, New York 10007. The following members of the Board were present:

Alan M. Moss,

Donald A. Capoccia,

Alfonso L. Carney, Jr.,

Mehul J. Patel, and

Arlene M. Payne,

constituting a quorum. Mr. Moss chaired the meeting, and Albert F. Moncure, Jr., served as secretary of the meeting.

Approval of Minutes of October 7, 2011 Meeting

The first item on the agenda was approval of the minutes of the Board’s previous meeting held on October 7, 2011. There being no discussion, upon motion duly made and seconded, the minutes of the meeting held on October 7, 2011 were unanimously¹ adopted.

Approval of Investment Guidelines and Fiscal Year 2011 Investment Report

The next item on the agenda was the annual approval of the Board’s Investment Guidelines and Investment Report as required by the Public Authorities Law.

The Board’s Treasurer, Mathilde McLean, explained that the guidelines and report pertain primarily to funds invested in the Operation and Maintenance Reserve Fund (the “O&M Reserve Fund”). Because of liquidity requirements applicable to the O & M Reserve

¹ Mr. Patel arrived after adoption of the minutes and did not take part in the vote to adopt the minutes.

Fund, the Investment Guidelines are conservative. As described in the Investment Report, investments in the O&M Reserve Fund yielded approximately 0.6% last year. Responding to Mr. Carney, Ms. McLean said the Investment Guidelines have not been amended since 1997.

There being no further discussion, upon motion duly, made and seconded, the following resolution was unanimously adopted:

WHEREAS, the New York City Water Board (the “Board”) adopted Investment Guidelines to establish policies for the investment of its funds on May 2, 1986 and subsequently amended the Investment Guidelines on October 24, 1990 and February 14, 1997; and

WHEREAS, pursuant to the Investment Guidelines, the Board is required annually to review and approve both the Investment Guidelines and an Investment Report; and

WHEREAS, the Board has reviewed the Investment Guidelines as contained in the Fiscal Year 2011 Investment Report and finds both the guidelines and report to be reasonable and appropriate; it is therefore,

RESOLVED, that the Investment Guidelines and the Fiscal Year 2011 Investment Report, copies of which will be filed with the minutes of this meeting, are hereby approved.

Approval of Updated Whistleblower Policy and Procedures

The next item on the agenda was the approval of an updated Whistleblower Policy. The Board’s Executive Director, Steven Lawitts, explained that pursuant to the Public Authorities Accountability Act, the Board previously adopted a Whistleblower Policy providing protections for people who reported wrongdoing. It is now proposed to adopt an amended policy substantially in the form of the model whistleblower policy adopted by the State Authorities Budget Office. The policy establishes a procedure for reporting wrongdoing and provides protection against retaliation or interference by management or Board members for people who

report wrongdoing in good faith. Responding to a question from Mr. Carney, Mr. Lawitts said the Board has never received a whistleblower complaint. Responding to a concern expressed by Mr. Capoccia about possible retaliation by management, Mr. Lawitts explained that a whistleblower complaint may be reported directly to the Department of Investigation rather than to the whistleblower's supervisor.

There being no further discussion, upon motion duly made and seconded, the following resolution was unanimously adopted:

WHEREAS, the New York City Water Board (the "Board") adopted a Whistleblower Protection Policy on September 15, 2006 pursuant to New York State Public Authorities Law ("PAL") Section 2824-1 (e); and

WHEREAS, pursuant to Article 9, Title 12 of the PAL, the New York State Authorities Budget Office recently developed a model whistleblower protection policy to assist authorities in implementing an effective whistleblower protection program; and

WHEREAS, Board staff has incorporated the model policy in a revision of the Board's whistleblower policy, and the Board has reviewed this proposed policy and finds it to be reasonable and appropriate; it is therefore,

RESOLVED, that the Board's Whistleblower Policy and Procedures, a copy of which will be filed with the minutes of this meeting, is hereby adopted and effective immediately.

Information Items

Mr. Lawitts next discussed two information items required to be presented to the Board pursuant to the Public Authorities Accountability Act: the Fiscal Year 2011 Measurement Report and the Fiscal Year 2011 Report on Activities, Operations and Accomplishments of the Board.

Mr. Lawitts said the Measurement Report indicates that water rates in the City are lower than the national average while other costs of living are higher in the City than the national

average. Mr. Carney said this finding is very significant and should be publicized in connection with Fiscal Year 2013 rate adoption.

In connection with the Report on Activities, Operations, and Accomplishments, discussion ensued among Mr. Moss, Mr. Lawitts and Mr. Capoccia about possible follow-up to the recommendations in the Alternative Rate Structure Study. Responding to Mr. Moss, Mr. Lawitts said the Board has adopted a stormwater pilot charge for parking lots that are not connected to the Water and Sewer System as recommended by the study. The study also analyzed conservation pricing, which the Board may implement during shut down of the Delaware Aqueduct to repair the leak in the aqueduct. In addition, Raftelis Financial Consultants, Inc., one of the Board's rate consultants, is evaluating a simplified per-dwelling unit billing charge including conservation requirements that will replace frontage billing, which is scheduled to expire on June 30, 2012.

Contracts Update

The next item on the agenda was an update on the status of consulting contracts.

Operational Excellence - Opx

Mr. Lawitts first discussed the Operational Excellence contract with Veolia Water North America Operating Services, LLC ("Veolia") previously referred to as the Operational Efficiency contract. He described the Veolia and DEP personnel assigned to the project and the timeline for completion of Phase I. He said initial meetings have been held between the Veolia and DEP teams and between DEP and union leaders.

Mr. Lawitts then described the tasks to be completed during the six month Phase I period: identification and verification of improvement measures, prioritization and detailing of improvement measures, and creation of the final report and transformation plan.

On a related matter, he said that DEP is in the process of reducing its operating budget by 4% or \$37 million, which would reduce the rate of increase in Water and Sewer rates by 1½%. Responding to Mr. Patel, Mr. Lawitts explained that for purposes of determining Veolia's incentive compensation, Veolia would receive credit for reductions in DEP's operating budget only to the extent that such reductions are directly attributable to specific recommendations made by Veolia.

Rate Consultants

Mr. Lawitts described the services being provided by each of the rate consultants: Amawalk Consulting Group, LLC ("Amawalk") and Raftelis Financial Consultants, Inc. ("Raftelis"). Amawalk's services include reconciling property lists maintained by the Department of Finance ("DOF") Fairtax System with those of DEP's Customer Information System to ensure that DEP's system accurately captures all accounts registered in DOF's Fairtax System.

Raftelis's services include surveying other utilities' large meter polices. Responding to a question from Mr. Capoccia as to the efficacy of submetering water mains in connection with the JFK airport expansion, Mr. Lawitts cited the large number of end users as a difficulty with adoption of this suggestion.

Risk & Insurance

Mr. Lawitts said the Board's risk management consultant, Willis of New York, Inc., is reviewing the adequacy of Builder's Risk insurance maintained by the private contractor, who is constructing a concrete manufacturing plant at Gilboa Dam, in light of the damage to the plant caused by Hurricane Irene.

Financial Advisors

Mr. Lawitts next described the services being provided by the Board's Financial Advisors: Greenhill & Co., Inc. ("Greenhill") and KPMG LLP ("KPMG"). Greenhill is assisting in the procurement of a private operator for the Catskill/Delaware Ultraviolet Disinfection Facility (the "UV Plant"). Responding to a question from Mr. Moss, Mr. Lawitts said he was not familiar with the details of the Local Law No. 35 privatization review being undertaken by the City Council and City Comptroller and is therefore not in a position to comment on the applicability of Local Law No. 35 to the UV Plant privatization.

KPMG is assisting in a procurement of a contractor to manage the beneficial re-use of sludge. Ms. Payne asked for an explanation of the interplay between the proposed sludge re-use contract and potential operating efficiencies identified by Veolia pursuant to the OpX contract with respect to sludge disposal. Mr. Lawitts explained that it is expected that only 50% of sludge will be converted to biosolids (which can be used as fertilizer) pursuant to the sludge re-use procurement being managed by KPMG. Pursuant to the OpX contract, Veolia will evaluate and propose adjustments that optimize DEP's sludge dewatering process to balance the cost of achieving a high percentage of solids delivered with the disposal costs of the additional tons. Veolia's findings could result in operational savings for all of DEP's sludge.

Mr. Capoccia asked that Veolia make a presentation to the Board at a future meeting.

Financial Update

The last item on the agenda was a Financial Update presented by Mr. Lawitts.

Mr. Lawitts said that revenues are currently 1% ahead of the plan target amount. For the first 4 months of Fiscal Year 2012, in-City water distribution is 3.5% less than during the

comparable period in Fiscal Year 2011. Although metered consumption year-over-year continued to fall in October, DEP billed 2.4% more on a year-over-year basis.

Automated Meter Reading (“AMR”) installation is 91% complete city-wide. AMR installation is 94% complete in Queens, the borough with the most completed installations. He said it will be difficult to complete the remaining installations because these accounts represent locations which are not readily accessible because the customer is often not home or where the installation contractor has encountered mechanical problems. Responding to Mr. Patel, Mr. Lawitts said the denial of access charge, which effectively doubles the standard water and sewer rate, may be imposed by DEP in some of these cases.

Finally Mr. Lawitts discussed DEP’s online initiatives: direct debit and paperless billing. Twenty thousand customers enrolled in both programs have received a 2% discount in the aggregate amount of \$465,000, which is less than 0.015% of annual revenue.

Adjournment

There being no further business to come before the Board, upon motion duly made and seconded, the meeting was duly adjourned.

Secretary